

WHERE WILL THIS YEAR'S RECORD PULSE CROP GO?



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In a couple of weeks farmers will start reaping what was sown by almost two years of better-than-normal returns from pulses relative to other field crops. Production is rising as exporters and

processors wrestle with massive import demand from traditional buyers and better than expected sales to food manufacturers.

Approaching 80 million (M) tonnes, world pulse output will set a new record high this year. Yet, at 10.8 kilograms (kg) per person, global per capita availability of pulses is 16% below the 12.93 kg per person grown and consumed during the 1960s.

Even so, this represents a significant reversal in pulse consumption. It fell every decade between 1960 and 2010, sinking to a low of just 9.35 kg per human being between 2000 and 2009.

Several things have happened since 2010 to change demand fundamentals for pulses. Most obvious is increased demand from the Indian subcontinent. Less obvious until now is the growth in demand for pulses by food manufacturers.

Rising incomes in India has shrunken the gap between what people should eat and what people are eating. For many years, India struggled to meet the absolute minimum amount of pulses it needed to eat to be reasonably healthy. With the help of massive imports, it succeeded four of the last six years.

India is now trying to make sure there are enough pulses available to ensure everyone has a chance at a healthy diet. It has never succeeded in having an average per capita availability of 20 kg per person, with the shortfall ranging between 1.4 and 3.7 M tonnes per year.

Problems meeting the country's needs were made worse by two below average monsoons in a row. This saw domestic production fall from 19 M tonnes in 2013/14 to just over 17 M the past two seasons. This year's monsoon is expected to be above average. It is hard to know if this summer's kharif crop will be much bigger, but it is a safe bet that production for the coming winter or rabi crop will be up sharply. It is already clear that demand for the rest of the calendar year will not be hurt. If shipments to the Indian subcontinent are going to fall, it will happen in 2017.

One reason this will be the case is that the Indian government has decided to create an

800,000 tonne buffer stock. State trading companies started buying yellow peas and red lentils from Canada in June, as well as Desi chickpeas from Australia, and various types of beans from Myanmar and Africa. India also hopes to enter government-to-government deals with Myanmar and other countries for pulses. That demand is on top of any commercial sales that have already been made. The implication is there will be plenty of chances to sell peas and lentils from the time this year's harvest starts, right through the middle of November.

Recently, bids for lentils and yellow peas have tended to be higher during the last half of the marketing year than during the first half. Demand fundamentals played a clear role during the past two marketing years. Plunging pulse production on the Indian subcontinent boosted demand after January.

For the coming season, purchases between January and next July are expected to drop back to more normal levels. The implication is that demand for pulses harvested this year should be more intense before the end of the calendar year than after. As a result, it would not be surprising to see prices set their season highs before January.

Another important contributor to growing per capita pulse consumption is the use of pulses by food manufacturers. Untold dozens of new products have been released

Monthly Large Green Lentil Grower Bid Price Performance

(monthly average as a percentage of marketing year average)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Aug	95%	109%	141%	63%	59%	107%	120%	91%	118%	98%	97%	68%	66%
Sept	96%	121%	131%	74%	70%	100%	82%	108%	115%	103%	100%	88%	70%
Oct	93%	115%	110%	85%	76%	96%	87%	109%	113%	99%	98%	88%	74%
Nov	89%	108%	107%	98%	80%	86%	106%	108%	106%	94%	97%	87%	89%
Dec	90%	106%	96%	101%	85%	68%	110%	106%	103%	91%	98%	93%	108%
Jan	91%	102%	90%	104%	89%	71%	113%	107%	102%	90%	100%	100%	113%
Feb	97%	94%	88%	105%	105%	89%	98%	106%	97%	95%	95%	97%	116%
Mar	109%	91%	78%	109%	117%	96%	97%	97%	91%	99%	94%	107%	122%
Apr	123%	90%	84%	113%	114%	107%	93%	91%	91%	110%	99%	115%	122%
May	117%	91%	90%	118%	135%	128%	87%	94%	94%	112%	106%	121%	118%
Jun	101%	89%	92%	118%	142%	124%	100%	93%	88%	107%	107%	122%	108%
Jul	97%	86%	90%	117%	130%	124%	103%	93%	80%	102%	112%	118%	94%

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since 2014. In its 2016 outlook, SPINS, which provides retail consumer insights, analytics, and consulting for the natural, organic, and specialty products industry, said, "Chickpeas . . . have been featured in new category break outs. Progressing from hummus and vegan entrees, to crunchy snacks, chips, and recently pasta, this legume encompasses several macro-trends -- gluten free, grain-free, and protein-packed."

Improving North American domestic demand for pulses suggests that month-to-month will be higher on average than would otherwise be the case. That should moderate the impact on prices of next year's forecast relaxation in demand from the Indian subcontinent. But, it may not be enough to prevent prices from being lower on average in 2017 than will be the case during the remainder of 2016.

The bottom line for growers is that it may be important to take advantage of opportunities to sell enough product to at least cover production costs before the end of the calendar year.

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Monthly Yellow Pea Grower Bid Price Performance

(monthly average as a percentage of marketing year average)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Aug	88%	109%	102%	61%	72%	133%	115%	73%	99%	99%	115%	81%	77%
Sept	93%	108%	96%	70%	73%	108%	90%	78%	104%	96%	107%	80%	77%
Oct	95%	99%	96%	83%	76%	104%	94%	83%	104%	97%	104%	82%	79%
Nov	97%	97%	98%	86%	82%	98%	109%	92%	103%	98%	102%	89%	87%
Dec	97%	97%	92%	90%	97%	85%	109%	93%	98%	97%	100%	97%	97%
Jan	97%	97%	93%	94%	101%	88%	110%	100%	98%	97%	93%	105%	109%
Feb	98%	96%	93%	101%	115%	94%	99%	114%	99%	99%	92%	118%	123%
Mar	104%	96%	94%	119%	126%	100%	96%	111%	102%	99%	92%	110%	120%
Apr	111%	97%	102%	127%	114%	100%	89%	110%	102%	102%	98%	107%	120%
May	114%	97%	111%	127%	116%	98%	89%	106%	101%	105%	103%	111%	115%
Jun	106%	104%	110%	124%	117%	91%	91%	117%	94%	109%	98%	111%	104%
Jul	97%	104%	111%	119%	110%	94%	107%	126%	95%	102%	96%	111%	92%

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Monthly Red Lentil Grower Bid Price Performance

(monthly average as a percentage of marketing year average)

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Aug	97%	93%	113%	73%	67%	114%	108%	102%	105%	90%	101%	80%	81%
Sept	95%	104%	107%	82%	71%	90%	89%	120%	106%	91%	90%	84%	77%
Oct	92%	103%	106%	92%	70%	90%	92%	115%	107%	89%	88%	85%	90%
Nov	91%	100%	107%	95%	70%	84%	108%	106%	98%	87%	89%	86%	102%
Dec	92%	100%	98%	91%	71%	68%	119%	107%	89%	86%	90%	87%	122%
Jan	97%	103%	96%	95%	79%	86%	127%	109%	91%	92%	89%	100%	117%
Feb	107%	104%	93%	94%	101%	93%	109%	110%	94%	95%	89%	104%	115%
Mar	112%	100%	90%	102%	112%	104%	101%	91%	99%	102%	99%	104%	103%
Apr	113%	99%	102%	119%	108%	114%	95%	91%	102%	120%	108%	114%	112%
May	106%	103%	99%	114%	145%	116%	86%	77%	105%	119%	118%	121%	105%
Jun	103%	100%	98%	117%	159%	121%	82%	86%	105%	115%	113%	121%	95%
Jul	94%	92%	87%	129%	148%	116%	82%	93%	98%	115%	123%	116%	84%

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CANADA'S PULSE PRODUCTION UP SIGNIFICANTLY FOR 2016



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We have just passed the summer solstice, so normally the focus should shift from acreage estimates to yield forecasts and crop conditions. However this year, the market is still seeking more conclusive answers to the Canadian lentil acreage. Statistics Canada's (StatCan) early Canadian lentil

acreage was assessed at a total 5.14 million (M) acres in April, which would represent a 30% increase over last crop year (on top of a 20% increase the previous year). But recently trade participants have started broadcasting numbers as high as 6-6.5 M acres into the market. These numbers have been well noted by buyers as they would represent an unprecedented increase in Canadian lentil acreage this year over last year of 52% and 65%. These are extremely high increases and based on Mercantile Consulting Venture Inc. research, we

have settled on 5.5 M acres for now. This already denotes a 39% growth in acres over last year. In terms of market effect, each 1 M acres increase roughly represents an additional 650,000 tonnes of lentils. Given average yields, the StatCan acreage should give Canada 3.3-3.4 M tonnes lentil production this year (37% more than the 2.4 M tonnes last crop year). Our estimate of 5.5 M acres would result in about 3.7 M tonnes production, 6 M acres in roughly 3.9 M tonnes, and 6.5 M acres in about 4.3 M tonnes production.

Separating lentil acreage by type and using average yields, we expect the 2016 production for red lentils to reach 2.6 M tonnes (1.7 M tonnes last crop year), large and medium green lentil production to amount to 715,000 tonnes (545,000 tonnes last crop year), small greens to reach 172,000 tonnes (162,000 tonnes last year), and production of other types at 35,000 tonnes (24,000 tonnes last year). This implies that Canadian lentil production by type is up by 58% for reds, 31% for large and medium greens, 6% for small greens, and 48% for other lentils.

For North American lentil supply by type (Canadian plus United States production plus carry-in), we expect green lentil supply to come in at about 1.3 M tonnes, up approximately 39% from 950,000 tonnes. North American red lentil supply should reach 2.8 M tonnes, up about 60% from last year. Total lentils add to 4.1 M tonnes. We can infer that red lentils are going to be more supply-heavy than green lentils, and farmers should plan their marketing accordingly.

In the bigger picture, we are anticipating world lentil production (major producers) to reach nearly 6.4 M tonnes, up from 4.9 M tonnes last year. This translates to a 32% overall increase. However, the surge in supply will be less due to negligible carry-in numbers.

The better news comes from the demand side of the balance sheet. We calculate world lentil usage for 2016/17 at 6 M tonnes, up from 5.2 M tonnes last year, due to good demand from the Indian subcontinent and generally pent up demand due to low supplies over this spring and summer. This includes about 350,000 tonnes in green lentil exports to India in replacement of pigeon peas. In other words, given our Canadian acreage number and average yields, the lentil balance sheet will actually not be hugely oversupplied unless yields are much better than average.

Estimates for the Canadian pea crop currently range from 4.1-4.3 M tonnes, an increase of 28-34% over last year. Estimates for the world's production of peas range from 12.3-12.5 M tonnes, an increase of 18-20% over last year. The Mercantile world pea numbers currently show a significant 19% increase over last year's production. The moderating factor is that carry-in from the current crop will be minimal, not burdensome.

Our production number is based on estimates for the major producers, including Australia, the United States, and Russia at

3.6 M tonnes (2.7 M tonnes last year). This estimate will be adjusted over the summer in line with growing conditions in the various countries. Importantly, the recent excessive rain in central France and southern Germany along with cool temperatures in Russia may warrant adjustments due to lost acres or in yield. Quality aspects will emerge later in the season. We will watch for effects of La Niña on harvest and quality in Canada.

On the demand side, a major point is that a substantial tonnage of yellow peas has already been sold overseas (mostly India) for fall delivery. This tonnage should already represent 40-45% of anticipated Canadian yellow pea exports for 2016/17. The hope here is that new crop prices hold relatively firm, or that defaults or execution problems are not a problem.

We also anticipate that Indian demand for yellow peas will remain strong into the winter, because a) peas are still the cheapest pulse and India needs to cover increasing demand following the (relatively small) kharif crop, and b) India will likely have to substitute chickpea demand with yellow peas because of the

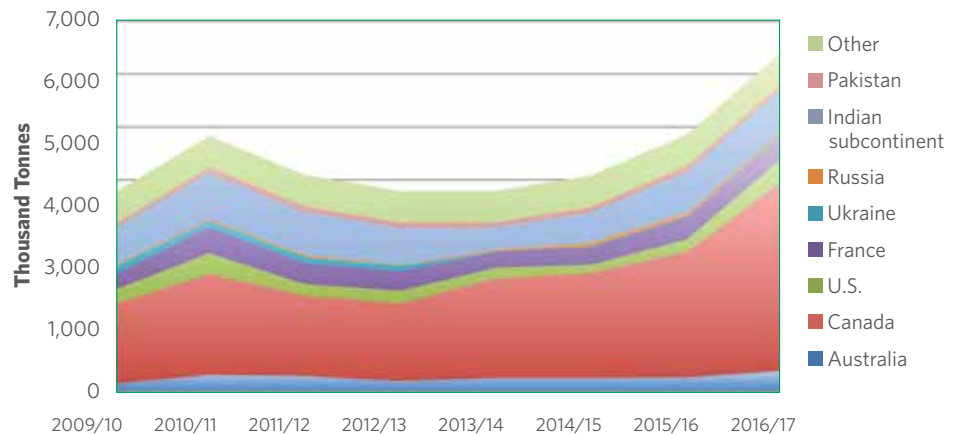
increased (and still rising) price difference between chickpeas and peas. Some traders overseas believe this substitution could be as high as 2 M tonnes.

Mercantile expects the pea market to remain positive for follow-up demand from the Indian subcontinent in the coming winter, and (given average yields) expect the 2016/17 Canadian pea ending stocks to remain at reasonable levels. But reports of high yields in Canada, Europe, Russia, and Australia (chickpeas) throughout the summer, or difficulties with logistics or forward contract compliance following harvest, will result in price volatility throughout the summer and early fall. The same is true for news on the monsoon progress and on crop development in India.

Old crop pulses should be long sold by now and substantial forward sales of pulses early on were a good idea for farmers to protect profitability of lentils and peas.

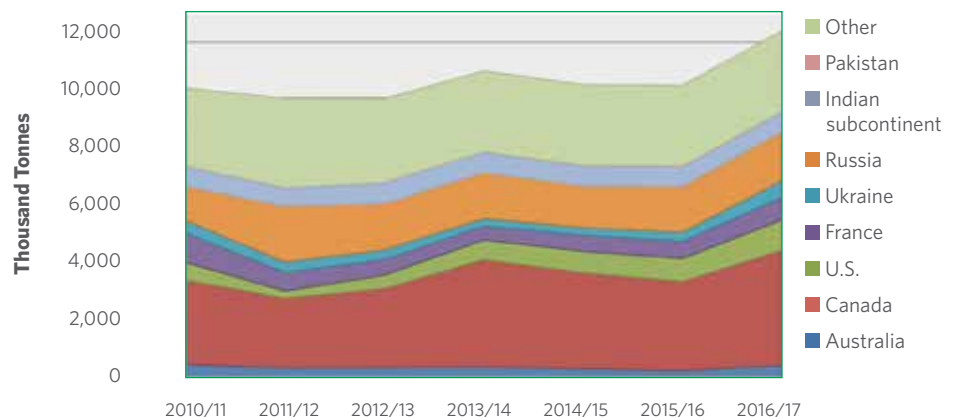
Marlene Boersch is an operating partner in Mercantile Consulting Venture. More information can be found at www.mercantileventure.com.

World Lentil Production Estimate-Major Producers



Source: Mercantile Consulting Venture, Inc.

World Pea Production Estimate-Major Producers



Source: Mercantile Consulting Venture, Inc.

Faba Bean Feed Benchmark Bi-Weekly Report - June 14 to 18, 2016

	CENTRAL ALBERTA	CENTRAL SASK	SOUTH MANITOBA
	CDN\$/T	CDN\$/T	CDN\$/T
Faba Bean Feed Benchmark Price	\$452.92	\$429.33	\$386.80
COMPETING FEED INGREDIENTS			
Feed Barley	\$196.00	\$183.00	\$200.00
Mid Protein Wheat	\$227.00	\$228.00	\$237.00
Low Protein Wheat	\$222.00	\$223.00	\$237.00
Wheat DDGS	\$270.00	\$270.00	\$285.00
Corn	\$250.00	\$226.00	\$208.00
Corn DDGS	\$300.00	\$280.00	\$257.00
Canola Meal	\$410.00	\$413.00	\$418.00
Soybean Meal (46%)	\$630.00	\$604.00	\$581.00
Canola Oil	\$1,010.00	\$990.00	\$980.00

All prices are in Canadian dollars per tonne.

Feed Pea Benchmark Bi Weekly Report - June 14 to 18, 2016

	CENTRAL ALBERTA	CENTRAL SASK	SOUTH MANITOBA
	CDN\$/T	CDN\$/T	CDN\$/T
Feed Pea Benchmark Price	\$381.62	\$352.81	\$348.73
COMPETING FEED INGREDIENTS			
Feed Barley	\$196.00	\$183.00	\$200.00
Mid Protein Wheat	\$227.00	\$228.00	\$237.00
Low Protein Wheat	\$222.00	\$223.00	\$237.00
Wheat DDGS	\$270.00	\$270.00	\$285.00
Corn	\$250.00	\$226.00	\$208.00
Corn DDGS	\$300.00	\$280.00	\$257.00
Canola Meal	\$410.00	\$413.00	\$418.00
Soybean Meal (46%)	\$630.00	\$630.00	\$581.00
Canola Oil	\$1,010.00	\$1,010.00	\$980.00

All prices are in Canadian dollars per tonne.

The feed pea and faba bean benchmark is intended to be used as a pricing reference. This benchmark provides a consistent and unbiased estimate of the feeding value of peas and faba beans in the three regions shown. Feed peas and faba beans will trade at various differentials to the benchmark based on local supply/demand, quality differences and other contract terms.



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